



July 28, 2016

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street N.W.  
Washington, D.C. 20006-2803

RSM US LLP

One South Wacker Drive  
Suite 800  
Chicago, IL 60606  
[www.rsmus.com](http://www.rsmus.com)

Re: PCAOB Rulemaking Docket Matter No. 042

Dear Office of the Secretary:

RSM US LLP appreciates the opportunity to offer our comments on the PCAOB's *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard, "Dividing Responsibility for the Audit with Another Accounting Firm."* RSM US LLP is a registered public accounting firm serving middle-market issuers, brokers and dealers.

With respect to audits involving other auditors, we support a risk-based supervisory approach focused on significant risks to the consolidated financial statements. However, certain aspects of the proposal could be interpreted as requiring the lead auditor to perform certain supervisory procedures without consideration of whether such procedures are responsive to the identified significant risks<sup>1</sup>. As discussed below, we believe there are additional opportunities to further promote a principles-based focus on the significant risks, while also allowing the lead auditor to exercise professional judgment in varying the nature, timing and extent of supervisory activities so as to provide for a more effective and efficient audit.

When other auditors participate in an audit, it also is important to appropriately determine the sufficiency of the participation in the audit by the lead auditor to serve as lead auditor. We support the provision of additional direction to help the lead auditor assure that its participation in the audit is sufficient for it to carry out its responsibilities. The level of interaction between the lead auditor and other auditors is critical to audit quality. We note, however, that the proposal is focused solely on the requirements of the lead auditor and suggest the Board clarify the responsibilities of the other auditor. We therefore agree that enhancements to the auditing standards guiding the supervision of other auditors are needed to help drive increased communication, especially written communication, between the lead auditor and other auditors.

Our comments with respect to the proposed amendments relating to the supervision of audits involving other auditors address potential enhancements to the risk-based supervisory approach, the lead auditor concept, the responsibilities of the other auditor, and communication between the lead auditor and other auditors. We also have included comments regarding the proposed auditing standard – AS 1206, *Dividing Responsibility for the Audit with Another Accounting Firm*.

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<sup>1</sup> See page 41 of the proposal: "...because lead auditor personnel would be required to perform additional supervisory responsibilities, such team members might have less time to perform other work on the same engagement. This could potentially reduce the likelihood that the auditor detects material misstatements in the portion of the financial statements for which the lead auditor performs procedures and could potentially lead to inefficient allocation of audit resources."

## **A risk-based supervisory approach**

### ***Evaluation of competence and objectivity of the other auditor***

As proposed, the standard does not contemplate consideration of the competence and objectivity of the other auditor in assessing the supervisory approach. We believe it would be helpful if the standard would establish criteria for the lead auditor to use in considering the competency and objectivity of the other auditor so as to vary the nature, timing and extent of supervisory activities as appropriate. Such criteria could include:

- The lead auditor's knowledge of the other auditor, including its relevant industry experience and system of quality control
- The lead auditor's experience working with the other auditor on prior audits
- Whether the other auditor team includes a U.S. audit partner or manager on a long-term expatriate assignment
- The regulatory environment of the other auditor and whether it is similar to that in the United States

Also, the proposed standard makes no distinction between the supervisory requirements for other auditors from the same global network of firms as the lead auditor and those for other auditors outside the network. We believe this lack of differentiation could create additional effort when network firms participate in the audit, which would not improve audit quality and would result in additional costs for the audit client. For example, ignoring a network firm's system of quality control that is operating effectively could cause a duplication of effort between the lead auditor and the other auditor, especially related to evaluating independence, technical training and performance of members of the engagement team.

### ***Obtaining an understanding of independence and objectivity***

Under current standards, the determination of whether the other auditor has complied with the SEC and PCAOB independence and ethics requirements is made at the firm level. Proposed Appendix B of AS 2101, *Audit Planning*, states, "In an audit that involves other auditors, the lead auditor should determine each other auditor's compliance with the SEC and PCAOB independence and ethics requirements..."<sup>2</sup> The proposed definition of "other auditor" in AS 2101 includes "a member of the engagement team who is not a partner, principal, shareholder, or employee of the lead auditor..."<sup>3</sup> Therefore, we believe the proposed requirement to determine "each other auditor's" compliance with the SEC and PCAOB independence and ethics requirements would result in the need for the lead auditor to obtain an understanding of *each* team member's knowledge of independence and ethics requirements and to obtain a written representation regarding compliance with those requirements from *each individual engagement team member* of the other auditor. This would be unwieldy and costly, especially when the other auditor is not part of the lead auditor's global network. It also could be impossible to obtain in jurisdictions where privacy laws could impede sharing of detailed information about an individual. We suggest the proposed requirements in Appendix B of AS 2101 be revised to allow the other auditor's engagement partner to confirm to the lead auditor compliance with the SEC and PCAOB independence and ethics requirements on behalf of their firm and engagement team.

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<sup>2</sup> See paragraph .B4 of Appendix B, *Additional Requirements for the Lead Auditor When Planning an Audit that Involves Other Auditors or Referred-to Auditors*, on page A1-15 of the proposal.

<sup>3</sup> See paragraph .A5.a. of Appendix A, *Definitions*, on page A1-13 of the proposal.

### **Review of other auditor's documentation**

Proposed paragraph .B2.b. of AS 1201, *Supervision of the Audit Engagement*, requires the lead auditor to "Obtain and review the other auditor's description of the nature, timing, and extent of audit procedures to be performed..."<sup>4</sup> We believe this new proposed requirement would involve the performance of a review at a level of detail that may not be necessary or effective in all circumstances. For example, it may not be necessary for the lead auditor to obtain the entire audit program from the other auditor when the other auditor performs a full-scope audit for statutory purposes. We believe a more effective and efficient risk-based approach would instead be limited to requiring the lead auditor to obtain and review the other auditor's description of the nature, timing and extent of audit procedures to be performed in higher risk areas.

Likewise, proposed paragraph .B2.d. of AS 1201 would require the lead auditor to "Obtain from the other auditor a written report describing the other auditor's procedures, findings, conclusions, and, if applicable, opinion..."<sup>5</sup> We believe this new proposed requirement could be read to require each step performed by the other auditor to be summarized. We believe a more effective and efficient risk-based approach would instead be limited to requiring the lead auditor to obtain a written report describing the other auditor's (a) procedures performed in higher risk areas, together with related findings and conclusions, and (b) opinion, if applicable.

### **Review of other auditor's work**

In discussing the requirement to direct the other auditor to provide specific documentation, the proposal states, "...the lead auditor could determine it necessary to request additional documentation for review with respect to the work performed by less experienced other auditors..."<sup>6</sup> This could be interpreted to mean that the lead auditor should consider the experience of the person who performed the work, without regard to the experience of the person who reviewed the work. We believe a more effective and efficient lead auditor's review would focus on the experience level of the person who reviewed the work performed by the other auditor, rather the experience level of the person who performed the work.

Proposed paragraph .19A of AS 1215, *Audit Documentation*, would require audit documentation of the office issuing the auditor's report to include "a list of additional work papers of other auditors...that were reviewed by the lead auditor but not retained..." Further, such a list "must include a description of the work papers reviewed, the reviewer, and the date of such review."<sup>7</sup> We believe a list that includes the work paper title and reference number or audit step name would suffice to document which work papers or audit steps were reviewed by the lead auditor. The other auditor would be required to retain the work papers, so the proposed requirement to include a description of the work papers reviewed would be unnecessarily duplicative.

### **Determination of the lead auditor**

As stated above, we agree that it is important to appropriately determine the sufficiency of the participation in the audit by the lead auditor to warrant serving as lead auditor. However, we are concerned that the proposed definition of "lead auditor" in AS 2101 may be too narrow as it currently only

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<sup>4</sup> See paragraph .B2.b. of Appendix B, *Procedures to Be Performed by the Lead Auditor with Respect to the Supervision of the Other Auditors' Work*, on page A1-23 of the proposal.

<sup>5</sup> See proposed paragraph .B2.d. of Appendix B, *Procedures to Be Performed by the Lead Auditor with Respect to the Supervision of the Other Auditors' Work*, on page A1-23 of the proposal.

<sup>6</sup> See proposed paragraph 3 on page A4-34 of the proposal.

<sup>7</sup> See proposed paragraph .19A of AS 1215 on pages A1-27 and 28.

includes “the engagement partner and other engagement team members who...are partners, principals, shareholders, or employees of the registered public accounting firm issuing the auditor’s report...”<sup>8</sup> Given the variety of accounting firm structures, we believe situations will exist where the lead auditor is sufficiently involved such that the other auditor becomes an extension of the lead auditor and is not working independently without direct supervision. Therefore, we suggest the definition of “lead auditor” be broadened to include engagement team members who are supervised directly by the lead auditor engagement partner or designee.

### **Responsibilities of the other auditor**

The proposal focuses solely on the requirements of the lead auditor. We believe the proposal should include a statement that the other auditor bears responsibility for the performance of their own work and their own report, if applicable. Also, we suggest the Board develop a risk-based, principles-based framework within the proposal to clarify the responsibilities of the other auditor, including the responsibilities of the senior engagement team members of the other auditor. Such responsibilities would not detract from the overall responsibility of the lead auditor, but rather should improve audit quality by emphasizing the responsibilities of the other auditor.

### **Lead auditor communications**

#### ***Tolerable misstatement***

Proposed paragraph .B2.a. of AS 1201 requires the lead auditor to “Inform the other auditor of...tolerable misstatement”<sup>9</sup>. It appears it is the Board’s intention to require the lead auditor to inform the other auditors of the “tolerable misstatement for the location or business unit.”<sup>10</sup> Therefore, we suggest that paragraph .B2.a. be revised to specify that the required communication is the tolerable misstatement for the location or business unit.

#### ***Identified risks of material misstatement***

Proposed paragraph .B2.a. of AS 1201 also requires the lead auditor to “Inform the other auditor of...the identified risks of material misstatement.”<sup>11</sup> We believe a risk-based approach would not require the communication of all identified risks of material misstatement because not all identified risks of material misstatement will necessarily be applicable to a particular location or business unit and therefore could unintentionally require additional procedures by the other auditor. We suggest instead requiring the lead auditor to inform the other auditor of identified *significant* risks of material misstatement *at the entity and business unit level*.

### **Dividing responsibility for the audit with another accounting firm**

We agree that it is logical to have a separate standard related to dividing responsibility for the audit with another accounting firm. We note, however, that proposed AS 1206 only addresses the requirements to be followed when making reference to another auditor. There is no guidance on whether to make

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<sup>8</sup> See paragraph .A4.b. of Appendix A, *Definitions*, on page A1-13 of the proposal.

<sup>9</sup> See paragraph .B2.a. of Appendix B, *Procedures to Be Performed by the Lead Auditor with Respect to the Supervision of the Other Auditors’ Work*, on pages A1-22 and 23 of the proposal.

<sup>10</sup> See page A4-31 of the proposal.

<sup>11</sup> See paragraph .B2.a. of Appendix B, *Procedures to Be Performed by the Lead Auditor with Respect to the Supervision of the Other Auditors’ Work*, on pages A1-22 and 23 of the proposal.

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reference to another firm, which could infer that such considerations no longer are appropriate. For example, under extant AU 543.05-06, a firm generally does not make reference to another firm in its global network. Also, there may be situations in which it may be impractical for the lead auditor to take responsibility for the other auditor's work. Therefore, we believe guidance should be provided regarding considerations in deciding whether to make reference to another auditor.

Also, provided certain conditions are met, existing standards allow for dividing responsibility when financial-reporting frameworks are different. The proposed standard does not allow for division of responsibility when financial-reporting frameworks are different, and we believe this is an important option that should be allowed to accommodate situations in which a foreign subsidiary's financial statements are prepared in accordance with International Financial Reporting Standards and audited by an other auditor and the consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.

We would be pleased to respond to any questions the Board or its staff may have about our comments. Please direct any questions to Sara Lord, National Director of Assurance Services, at 612.376.9572.

Sincerely,

*RSM US LLP*

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